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SUBJECT: NIGERIA: RECAPITALIZATION OF MORTGAGE FINANCE
INSTITUTIONS IMMINENT

1. (U) Summary: Nigeria's ninety-plus primary mortgage institutions (PMIs) may soon be required to recapitalize in line with the ongoing reforms in the financial sector. In anticipation of a directive from the Central Bank (CBN), mortgagors are striving to raise their capital base from the currently required naira 100 million (USD 769,231) to naira one billion (USD 7.7 million). However, many expect the CBN to give a much higher capital requirement, perhaps naira five billion (USD 38.5 million). End summary.

2. (U) To further reform the financial sector, the CBN is expected to raise the capital requirement of PMIs from naira 100 million (USD 769,231) to roughly naira five billion (USD 38.5 million). Last year, the CBN directed all banks to recapitalize to naira 25 billion (USD 192 million) by December 2005. Mortgage operators believe the CBN may announce sector reform in early 2006. According to FBN Mortgage Bank officials, in a move intended to preempt even more stringent CBN measures, Nigerian PMIs under the aegis of the Mortgage Banking Association of Nigeria have proposed to raise their individual capitalization to naira one billion (USD 7.7 million) in two tranches; naira 500 million (USD 3.8 million) by end of 2006, and naira one billion by July 2008.

3. (SBU) FBN executives told us they expect few of Nigeria's 90 PMIs to survive a reform process, given that most are already moribund. They said industry leaders; Union Homes, Finacorp Savings and Loans, Cooperative Development Savings and Loans, Aso Savings and Loans, and FBN Mortgage Bankers, can easily recapitalize when directed to do so. However, PMI's should expect keener competition from banks as banks failing to meet the naira 25 billion recapitalization requirement may opt to become PMIs instead. In a move that further signals the trend of consolidation in the financial sector, some banks are in the process of acquiring ailing PMIs, the same FBN executives said.

Browne